

COUNTRY ANALYSIS BRIEFS

Bahrain

Last Updated: March 2006

General Background

Bahrain's economy has A small group of islands linked by causeway to Saudi Arabia, Bahrain recently became a constitutional monarchy. **experienced steady** Since 1999, the country has been ruled by Sheikh Hamad bin Isa Al-Khalifa, who has committed to a process of **growth of over 5** gradual democratization. In February 2001, Sheikh Hamad held a referendum on his National Action Charter, which **percent in recent years** called for constitutional reforms. The Charter received the approval of 98 percent of the electorate, and in February 2002, Sheikh Hamad declared himself king and Bahrain a constitutional monarchy. He also called for parliamentary elections in October. The new bicameral legislature (to be made-up of a lower chamber of elected representatives and an upper house of appointed legislators) was Bahrain's first since the National Assembly was dissolved in 1975. Though the elections occurred without irregularity, turnout was only 53 percent due to the decision by Shi'ite groups to boycott the election. The king responded to Sunni Islamist candidates' capture of most of the seats in the lower house by appointing secular MPs to the upper house.

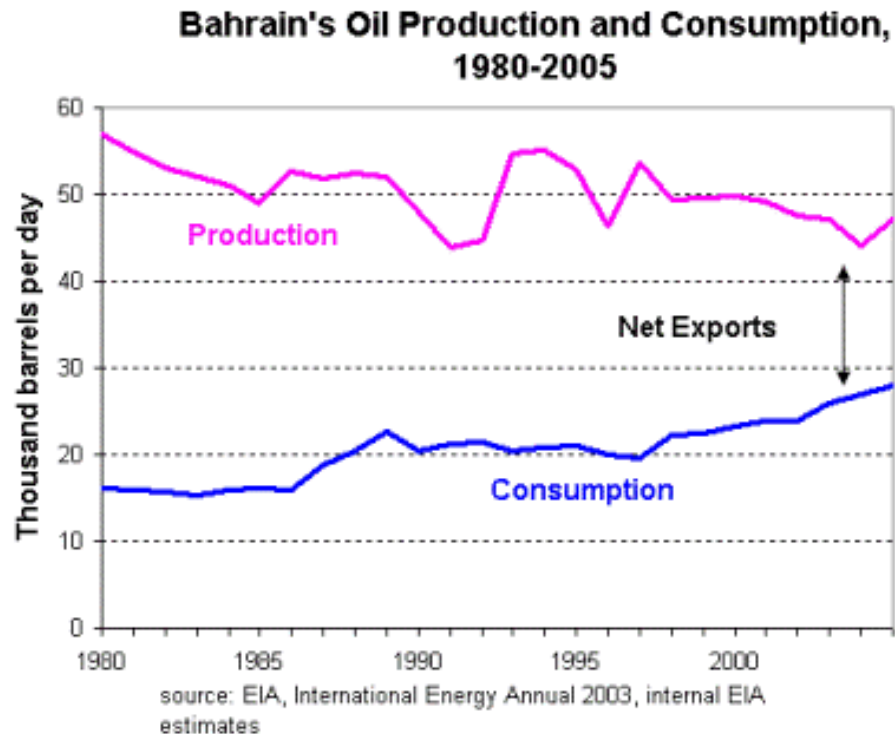


Since 1948, the United States Navy has made Bahrain its headquarters for activity in the Persian Gulf, and more than 5,000 U.S. military personnel are currently stationed in Bahrain. At present, its base occupies more than 60 acres of land in Manama, the country's capital, and is the headquarters of the U.S. Navy's Fifth Fleet. The U.S. and Bahrain also have a Free Trade Agreement (FTA), which was signed in September 2004.

Already a regional financial services center specializing in offshore banking, Bahrain is intent on further diversifying its generally liberalized economy. For the time being, the country remains heavily dependent on the oil sector. Petroleum revenues make up about two-thirds of government revenue and export earnings. Hydrocarbons also provide the foundation for Bahrain's two major industries: refining and an aluminum smelter. Accordingly, oil prices dramatically affect Bahrain's economy. The relatively high oil prices of recent years have helped Bahrain's real gross domestic product (GDP) to grow at 5.4 percent in 2004 and an estimated 5.3 percent for 2005. Growth for 2006 is forecast at 5.5 percent. These relatively strong growth rates have not kept unemployment from becoming a growing economic and political problem.

Oil

Bahrain refines and exports crude oil from Saudi Arabia's Abu Saafa field. All of Bahrain's 125 million barrels of onshore proven oil reserves are located in the Awali field, the first oil field to be developed in the Persian Gulf. Discovered in 1932, Awali's crude oil production peaked at more than 75,000 barrels per day (bbl/d) in the 1970s, but has declined since then. As of early 2006, Awali is producing around 35,000 bbl/d of crude oil.



In addition to Awali, Bahrain might have undiscovered oil reserves offshore in the Gulf of Bahrain. These areas became available for exploration and potential exploitation following the International Court of Justice's March 2001 resolution of a territorial dispute between Bahrain and Qatar over islands located between the two countries. The court awarded sovereignty over the Hawar Islands to Bahrain. Bahrain has since offered concessions to foreign investors. In November 2001, Bahrain awarded two blocks off the country's southeastern coast to Petronas (Malaysia) and another similarly located block to ChevronTexaco. Both companies have since begun to explore their concessions. Since then, the Calgary-based EnCana Corporation has become involved in offshore exploration. Thailand's PTT Exploration and Production Company also received exploration acreage, offshore from Bahrain's northwest coast, in May 2005. To date, no new discoveries of oil in commercial quantities have been reported.

In addition to what is produced in its territory, Bahrain purchases Arab Light crude oil via a subsea pipeline from Saudi Arabia, which it refines for export at its Sitra refinery. To support the Bahraini economy, Saudi Arabia gives Bahrain the right to market and sell 150,000 bbl/d of Arab Medium crude oil from the Abu Saafa offshore field. This oil is exported through the Saudi terminal at Ras Tannurah, but sales are handled by the Bahrain Petroleum Company (Bapco), and Bahrain receives the revenue.

Unlike other Gulf states, Bahrain exports refined petroleum products rather than crude oil. The country's only refinery, Sitra, is located south of Manama and has a current capacity of 248,900 bbl/d. Bahrain exports most of the Sitra refinery's products to India. The Sitra refinery was built in 1936, and has been modernized several times. The Bahrain Petroleum Company (Bapco) recently completed a \$900 million modernization project, which increased overall capacity, and kept its product up-to-date with current Indian fuel standards. It also introduced hydrocracking facilities to allow production of 40,000 bbl/d of low sulfur diesel. In September 2002, the government authorized Bapco to initiate a study of the feasibility of building a \$1.3 billion petrochemical complex at Sitra. The Bahraini government has not made a final decision on the project.

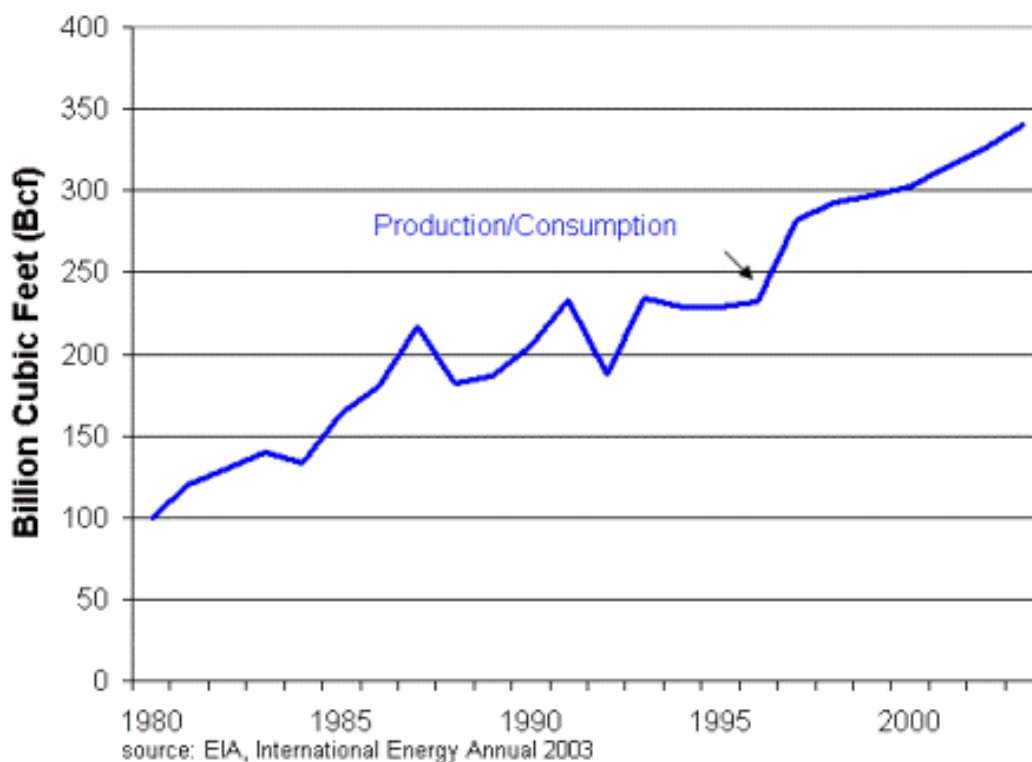
Consolidation of Bahrain's state-owned petroleum sector began in January 2000, when the upstream Bahrain National Oil Company (Banoco) began merging into Bapco. The merger was completed on June 1, 2002, and the

new business unit is known as Bapco Upstream. The new parent corporation, the Bahrain Petroleum Company BSC, is charged with the exploration, production, refining, marketing and distribution of Bahraini oil for domestic use and the international market. The Ministry of Petroleum has been eliminated as part of this process, and replaced with a regulatory body, the National Oil and Gas Authority.

Natural Gas

Bahrain has modest natural gas reserves, Bahrain has natural gas reserves of about 3.25 trillion cubic feet (Tcf), much of it associated gas from the Awali oil field. The country produced 341 billion cubic feet (Bcf) of natural gas in 2003, all of which was consumed locally. **and plans to import natural gas from Qatar.** Natural gas production and processing are the responsibility of Bapco Upstream. The largest domestic consumer was Aluminium Bahrain (Alba), which uses it in its power plant. In September 2003, the government signed an agreement with Alcoa allowing the American company to take up to a 26 percent equity stake in the company. Bapco Upstream awarded a contract in June 2004 to the U.S. engineering firm Foster Wheeler for upgrades to their main natural gas processing facility at Awali.

Bahrain's Natural Gas Production and Consumption, 1980-2003



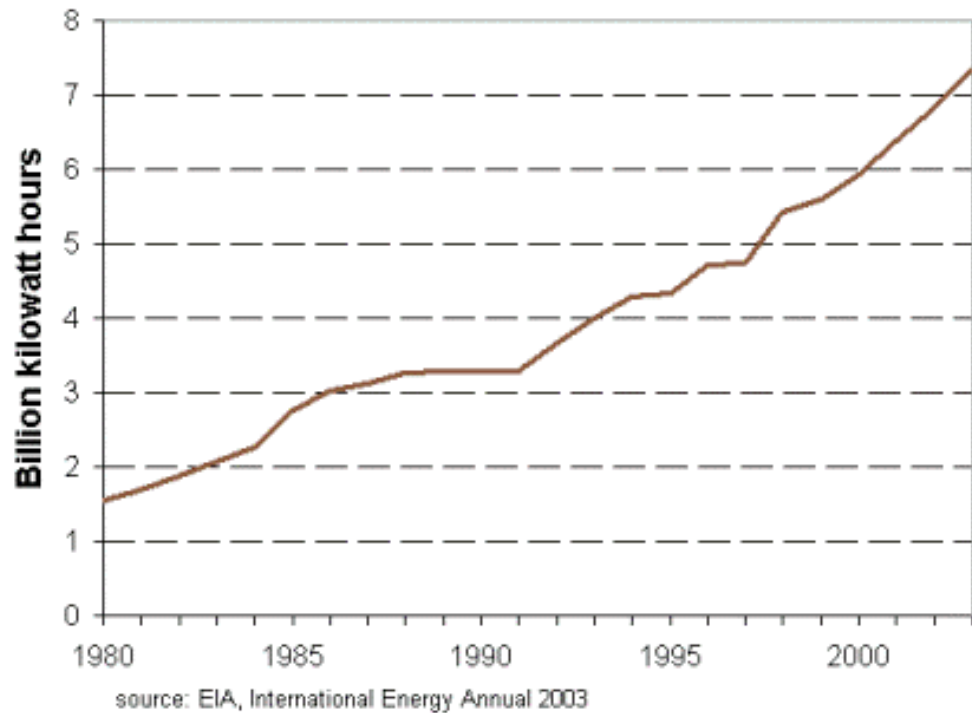
Bahrain's growing demand for electric power generation (see below) is likely to cause it to become a net natural gas importer in coming years. In January 2002, Qatar and Bahrain signed a Memorandum of Agreement indicating Bahrain's intentions to purchase natural gas from Qatar's North Field Enhanced Gas Utilization Project. After repeated delays, it now appears that it may be 2008 before Bahrain receives the 0.5 - 1 Bcf/d that it is seeking. Bahrain also opened negotiations with Iran on possible purchases of natural gas in early 2004.

Bapco has also pursued investment in liquefied natural gas (LNG) projects. In 2002, the country set up a joint venture with the American firm Dynegy to invest in related opportunities in the Middle East and North Africa.

Electricity

The first phase of the Al-Ezzal power project is slated to add 470 MW to Bahrain's generating capacity in April 2006. Electricity production and distribution in Bahrain is the responsibility of the Ministry of Electricity and Water. In 2003, Bahrain had an estimated electric generating capacity of 1.4 gigawatts (GW), and produced 7.3 billion kilowatt-hours (bkwh). Installed capacity is barely able to meet current consumption, with the country's population growth and economic development leading to rapid power demand increases. Nevertheless, domestic power prices are expected to remain at the low level set by the government in 1992 in an attempt to help low-income groups. Like other Gulf states, Bahrain has made official appeals for voluntary conservation, but a widespread blackout in August 2004 underscored the need for additional capacity.

Bahrain's Electricity Generation, 1980-2003



At present, Bahrain gets its power from two combined water and power production complexes and three smaller electricity-only plants. The recent focus has been on the modern Hidd complex. Phase One, which was completed in 1999, added 280 megawatts (MW). Phase Two added another 600 MW when it was completed in 2004. In addition to the work being done at Hidd, the government awarded a contract in 2001 to Siemens Power Generation to extend the life of the Rifaa power plant.

In July 2004, Bahrain awarded its first contract for an independent power project (IPP) to the Belgian firm Tractebel. The first phase of the gas-fired Al-Ezzal Power Plant is scheduled to begin commercial operation in April 2006, with a capacity of 470 MW. The full capacity of 950 MW is to be completed by April 2007. Once the project is complete, roughly one-third of Bahrain's generating capacity will be privately owned.

In addition to trying to increase supply, the Bahraini government has continued its attempts to improve the nation's transmission and distribution infrastructure. In November 2005, Bahrain awarded a contract for \$343 million to the British firm Nexans for construction of a subsea interconnection between the Bahraini and Saudi electric grids.

While movement is likely to be slow, Bahrain is considering the privatization of the country's entire electricity sector.

Profile

Country Overview

Head of State	King Hamad bin Isa al-Khalifa
Location	Middle East, archipelago in the Persian Gulf, east of Saudi Arabia
Independence	15 August 1971 (from UK)
Population (2005E)	688,345 note: includes 235,108 non-nationals
Languages	Arabic, English, Farsi, Urdu
Religion	Muslim (Shi'a and Sunni) 81.2%, Christian 9%, other 9.8% (2001 census)
Ethnic Group(s)	Bahraini 62.4%, non-Bahraini 37.6% (2001 census)

Economic Overview

Minister of Commerce	Ali Saleh Al-Saleh
Currency/Exchange Rate (2/14/2006)	1 Bahraini Dinar = \$2.65 US (Fixed)
Inflation Rate (2005E)	1.1%
Gross Domestic Product (GDP, 2005E)	\$11.8 billion
Real GDP Growth Rate (2005E)	5.3%
Exports (2005E)	\$9.4 billion
Exports - Commodities	petroleum and petroleum products, aluminum, textiles
Exports - Partners (2004E)	US 3.1%, South Korea 2.3%, Japan 2%
Imports (2005E)	\$7.4 billion
Imports - Commodities	crude oil, machinery, chemicals
Imports - Partners (2004E)	Saudi Arabia 33.1%, Japan 7.6%, Germany 6.1%, US 5.7%, UK 5.6%, France 4.9%

Energy Overview

Minister of Energy	Abdul Hussein Mirza
Proven Oil Reserves (January 1, 2006E)	0.1 billion barrels
Oil Production (2005E)	47.1 thousand barrels per day, of which 74% was crude oil.
Oil Consumption (2005E)	27.6 thousand barrels per day
Net Oil Exports (2005E)	19.5 thousand barrels per day
Crude Oil Distillation Capacity (2006E)	254.6 thousand barrels per day
Proven Natural Gas Reserves (January 1, 2006E)	3.3 trillion cubic feet
Natural Gas Production/Consumption (2003E)	340.8 billion cubic feet
Recoverable Coal Reserves (2003E)	None
Coal Production (2003E)	None
Coal Consumption (2003E)	None
Electricity Installed Capacity (2003E)	1.4 gigawatts
Electricity Production (2003E)	7.3 billion kilowatt hours
Electricity Consumption (2003E)	6.8 billion kilowatt hours
Total Energy Consumption (2003E)	0.4 quadrillion Btus*, of which Natural Gas (83%), Oil (13%), Coal (0%), Nuclear (0%), Hydroelectricity (0%), Other Renewables (0%)
Total Per Capita Energy Consumption (2003E)	567.6 million Btus
Energy Intensity (2003E)	33,552.4 Btu per \$2000-PPP**

Environmental Overview

Energy-Related Carbon Dioxide Emissions (2003E)	22.2 million metric tons, of which Natural Gas (85%), Oil (15%), Coal (0%)
Per-Capita, Energy-Related Carbon Dioxide Emissions (2003E)	30.9 metric tons
Carbon Dioxide Intensity (2003E)	1.8 Metric tons per thousand \$2000-PPP**
Environmental Issues	desertification resulting from the degradation of limited arable land, periods of drought, and dust storms; coastal degradation (damage to coastlines, coral reefs, and sea vegetation) resulting from oil spills and other discharges from large tankers, oil refineries, and distribution stations; lack of freshwater resources, groundwater and seawater are the only sources for all water needs
Major Environmental Agreements	party to: Biodiversity, Climate Change, Desertification, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Wetlands signed, but not ratified: none of the selected agreements

Oil and Gas Industry

Organization	Bahrain Petroleum Company BSC; Bahrain Natural Gas Company (Banagas)
Foreign Company Involvement	ChevronTexaco, Petronas, EnCana Corporation
Major Oil Fields	Awali (35,000 bbl/d)
Major Refineries	Sitra (248,900 bbl/d)

* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar, wind, wood and waste electric power. The renewable energy consumption statistic is based on International Energy Agency (IEA) data and includes hydropower, solar, wind, tide, geothermal, solid biomass and animal products, biomass gas and liquids, industrial and municipal wastes. Sectoral shares of energy consumption and carbon emissions are also based on IEA data.

**GDP figures from OECD estimates based on purchasing power parity (PPP) exchange rates.

Links

Links

EIA Links

[EIA - Country Information on Bahrain](#)

U.S. Government

[CIA World Factbook - Bahrain](#)

[US State Department Consular Information Sheet - Bahrain](#)

[US State Department Country Commercial Guide - Bahrain](#)

[US Embassy in Manama, Bahrain](#)

Other Links

[Government of Bahrain](#)

[Embassy of Bahrain - Washington, DC](#)

[Bahrain National Gas Company \(Banagas\)](#)

[Gulf Daily News, Manama, Bahrain](#)

[Bahrain Post](#)

[Bahrain Tribune](#)

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CIA World Factbook

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Economist Intelligence Unit

Financial Times

Gulf News

Hart's Middle East Oil and Gas

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Petroleum Intelligence Weekly

International Market Insight Reports

U.S. Energy Information Administration

World Gas Intelligence

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